維奧醫藥控股有限公司
Vital Pharmaceutical Holdings Limited

(Incorporated in Cayman Islands with limited liability)
(Stock code: 1164)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors (the "Board") of Vital Pharmaceutical Holdings Limited ("Vital" or the "Company") announces the audited consolidated results of Vital and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008, together with the comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	**2008 HK$'000**	2007 HK$'000
Turnover	4	**698,225**	507,494
Cost of sales		**(250,858)**	(183,053)
Gross profit		**447,367**	324,441
Other operating income	4	**26,370**	17,980
Selling and distribution expenses		**(182,611)**	(168,754)
Administrative expenses		**(155,343)**	(96,091)
Impairment loss recognised in respect of goodwill		**(37,896)**	–
Finance costs	5	**(16,405)**	(12,605)
Profit before taxation		**81,482**	64,971
Income tax expense	6	**(20,563)**	(14,512)
Profit for the year	7	**60,919**	50,459
Attributable to:			
Equity holders of the Company		**61,095**	50,622
Minority interests		**(176)**	(163)
		60,919	50,459
Dividends	8	**–**	–
Earnings per share	9		
Basic		**HK3.94 cents**	HK3.27 cents
Diluted		**HK3.93 cents**	HK3.25 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Intangible assets		**2,651**	4,745
Property, plant and equipment		**225,552**	250,821
Investment properties		**57,032**	–
Prepaid lease payments on land use rights		**39,511**	33,416
Deposit for acquisition of a subsidiary		**–**	52,553
Deposit for acquisition of property, plant and equipment		**4,571**	5,292
Available-for-sale investments		**1,203**	4,782
Goodwill		**104,906**	30,396
		435,426	382,005
Current assets			
Inventories		**66,984**	108,362
Trade and other receivables	10	**131,660**	136,721
Prepaid lease payments on land use rights		**800**	754
Income tax recoverable		**6,031**	6,031
Held-for-trading investment		**1,667**	–
Bank balances and cash			
– pledged		**4,002**	639
– unpledged		**148,351**	106,525
		359,495	359,032
Current liabilities			
Trade and other payables	11	**76,008**	105,814
Value added tax payable		**17,522**	11,818
Income tax payable		**11,705**	3,152
Obligations under finance leases			
– due within one year		**114**	300
Bank borrowings – due within one year		**84,349**	115,089
		189,698	236,173
Net current assets		**169,797**	122,859
Total assets less current liabilities		**605,223**	504,864
Capital and reserves			
Share capital		**15,511**	15,511
Reserves		**581,448**	487,942
Equity attributable to equity holders of the Company		**596,959**	503,453
Minority interests		**413**	589
Total equity		**597,372**	504,042
Non-current liabilities			
Obligations under finance leases			
– due after one year		**344**	822
Deferred tax liabilities		**7,507**	–
		7,851	822
		605,223	504,864

NOTES:

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liabilities and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries is HK$.

As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the consolidated financial statements in HK$.

The principal activities of the Group are selling, distributing and manufacturing of pharmaceutical products.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS7 (Amendments)	Reclassification of Financial Assets
HK (IFRIC) – Interpretation ("INT") 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – INT 12	Service Concession Arrangements
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – INT 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – INT 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for annual periods ending on or after 30 June 2009.
7 Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER AND OTHER OPERATING INCOME

The Group is principally engaged in the selling, distributing and manufacturing of pharmaceutical products.

Turnover represents invoiced value of sales, net of returns, discounts allowed and sales related taxes. Revenues recognised during the year are as follows:

	2008	2007
	HK$'000	HK$'000
Turnover		
Sales of goods	**698,225**	507,494
Other operating income		
Interest income	**652**	995
Government grants (Note a)	**14,533**	10,193
Exchange gain	**5,004**	5,667
Gain on disposal/gain on deregistration of a subsidiary	**143**	90
Gain on disposal of held-for-trading investments	**–**	652
Gain on disposal of available-for sale investments	**2,030**	–
Net rental income from investment properties (Note b)	**905**	–
Reversal of write off of inventories	**2,816**	–
Sundry income	**287**	383
	26,370	17,980
Total revenues	**724,595**	525,474

Notes:

(a) For the two years ended 31 December 2008, the amounts represented unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan Province, the PRC and an one-off government grants for the Group's enlarged investment in a subsidiary.

(b) The amount represents net rental income generated from investment properties after deducing direct operating expenses of approximately HK$187,000 (2007: Nil).

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales and manufacturing of pharmaceutical products. The Group's principal market is in the PRC.

No geographical segment in other country are of a sufficient size to be reported separately.

5. FINANCE COSTS

	2008 **HK$'000**	2007 HK$'000
Interest expenses on:		
– bank borrowings and overdrafts wholly repayable within five years	**12,421**	7,402
– obligations under finance leases	**161**	155
– discounted bills of exchange	**2,001**	4,509
– bank borrowings not wholly repayable within five years	**–**	194
Other incidental borrowing costs	**1,822**	345
Total borrowing costs charged to the consolidated income statement	**16,405**	12,605

6. INCOME TAX EXPENSE

	2008 **HK$'000**	2007 HK$'000
Overseas income tax		
– current	**19,715**	15,632
– under(over)provision in prior years	**1,033**	(1,120)
	20,748	14,512
Deferred tax	**(185)**	–
	20,563	14,512

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived from Hong Kong for both years.

The Hong Kong Profits Tax amounting in total to HK$6,031,000 of a subsidiary of the Company for the two financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of tax reserve certificates was purchased and recorded as tax recoverable as at 31 December 2008 and 2007.

The Group had received an advice from a tax expert that, the profits of that subsidiary for the financial years 2000 and 2001 were neither arisen in nor derived from Hong Kong. The directors of the Company believes that the subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax. Accordingly, no provision for profits tax is required.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries ranged from 15% to 25% (2007: 13% to 33%).

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, one (2007: two) subsidiaries operating in the PRC are entitled to exemption from PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC income tax for the next three years and thereafter, preferential treatments which are subject to the relevant law and regulation.

One subsidiary obtained approval from the relevant tax bureau during the year ended 31 December 2008 and are qualified as a High and New Technology Enterprise which is subject to a tax rate of 15%. This subsidiary is subject to a tax rate of 13% during the year ended 31 December 2007.

Certain PRC subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

The subsidiary operating in Macao is exempted from income tax in Macao.

No Australian income tax has been provided as the subsidiaries operating in Australia had no estimated assessable profits for the current and previous years.

7. PROFIT FOR THE YEAR

	2008 **HK$'000**	2007 HK$'000
Profit for the year has been arrived at after charging :		
Amortisation of intangible assets	**2,300**	2,769
Amortisation of prepaid lease payments on land use rights	**942**	726
Auditors' remuneration	**1,436**	1,389
Cost of inventories sold	**248,042**	182,034
Depreciation of property, plant and equipment	**19,308**	19,614
Impairment loss recognised in respect of trade receivables (included in administrative expenses)	**4,695**	5,722
Net decrease in fair value of investment properties	**633**	–
Impairment loss recognised in respect of intangible assets (included in administrative expenses)	**–**	1,899
Impairment loss recognised in respect of property, plant and equipment (included in administrative expenses)	**27,075**	–
Impairment loss recognised in respect of payments for pharmaceutical projects (included in administrative expenses)	**2,971**	–
Impairment loss recognised in respect of other receivables (included in administrative expenses)	**2,778**	–
Loss on disposal of property, plant and equipment	**428**	324
Operating lease rental on land and buildings	**3,507**	2,598
Provision for compensation (Note a)	**5,556**	–
Research and development costs	**3,638**	1,747
Equity-settled consultancy services (Note b)	**955**	–
Staff costs (including directors' emoluments)	**114,961**	52,048
Written off of inventories (included in cost of sales)	**285**	165
Write down of inventories (included in cost of sales (2007: included in administrative expenses))	**3,809**	4,063

Notes:

(a) The amount represents the provision for compensation claim following the voluntary recall of one of the Group's product "Depile Capsules" from the market after reports of possible damage to the liver by "Depile Capsules". Details of the particulars were set out on an announcement dated 12 November 2008.

(b) The amount represents the fair value of consultancy and professional services provided to the Group in the current period in relation to identifying potential pharmaceutical projects and providing legal advice in the PRC. The consultancy service and professional service fees are settled through the issue of 11,000,000 share options in the current year.

8. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2008 HK$'000	2007 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	**61,095**	50,622

Number of shares	2008	2007
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,551,056,993**	1,546,319,870
Effect of dilutive ordinary shares in respect of share options	**2,007,791**	9,226,864
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,553,064,784**	1,555,546,734

10. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade and bills receivables (Note a)	**132,647**	127,474
Prepayments and deposits	**7,698**	11,785
Payments for pharmaceutical projects (Note b)	**21,253**	19,324
Other receivables	**4,564**	2,863
	166,162	161,446
Less: Impairment loss recognised in respect of trade receivables	**(11,215)**	(7,187)
Impairment loss recognised for payments for pharmaceutical projects (Note c)	**(20,509)**	(17,538)
Impairment loss recognised in respect of other receivables (Note d)	**(2,778)**	–
	131,660	136,721

Notes:

(a) The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 90 days to 180 days which are subject to periodic review by management.

At the balance sheet date, the aging analysis of the trade and bills receivables net of impairment loss recognised was as follows:

	2008 HK$'000	2007 HK$'000
Within 30 days	**46,842**	39,704
31-60 days	**28,192**	40,078
61-90 days	**31,297**	17,844
Over 90 days	**15,101**	22,661
	121,432	120,287

(b) Amounts paid for the development of technology and pharmaceutical products are deferred prior to completion of the projects and included in payments for pharmaceutical projects. On completion, these amounts are transferred to development costs in accordance with the Group's accounting policy.

(c) At the balance sheet date, the directors of the Company reviewed the carrying values of the payments for pharmaceutical projects and considered that in light of the market conditions in the PRC, the Group had terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore accumulated impairment loss of approximately HK$20,509,000 (2007: HK$17,538,000) had been recognised. An impairment loss of approximately HK$2,971,000 was recognised during the year ended 31 December 2008 (2007: Nil).

(d) Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$2,778,000 (2007: Nil) which are due to long outstanding. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade and bills payables	**11,909**	14,965
Accrued expenses and other payables	**64,099**	90,849
	76,008	105,814

At the balance sheet date, the aging analysis of the trade and bills payables were as follows:

	2008 HK$'000	2007 HK$'000
Within 30 days	**274**	12,783
31-60 days	**114**	1,777
61-90 days	**6**	30
Over 90 days	**11,515**	375
	11,909	14,965

12. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments for the acquisition of property, plant and equipment

	2008 HK$'000	2007 HK$'000
Contracted but not provided for	**5,356**	–

(b) Commitments for the development of new products and/or technologies

	2008 HK$'000	2007 HK$'000
Contracted but not provided for	**10,877**	10,941

(c) Commitments for the acquisition of a subsidiary

	2008 HK$'000	2007 HK$'000
Contracted but not provided for	**–**	160,213

(d) Commitments under operating leases

The Group as a lessor

Property rental income earned during the year was approximately HK$1,092,000 (2007: Nil). The investment properties are expected to generate rental yields of 3.67% (2007 : Nil) on an ongoing basis. The investment properties held have committed tenants for the next one to four years.

At the balance sheet date, the Company had commitments for future minimum lease receivables under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**1,831**	–
In the second to fifth year inclusive	**3,446**	–
	5,277	–

The Group as lessee

The Group leases certain of its offices and staff quarters under operating lease arrangements. Leases for properties are negotiated for a term ranging from one to two years and rentals are fixed.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 HK$'000	2007 HK$'000
Land and buildings		
Within one year	**917**	1,352
In the second to fifth year inclusive	**5**	121
	922	1,473

13. ACQUISITION OF SUBSIDIARIES

On 20 March 2008, the Group acquired the entire equity interest in Sichuan Hengtai Pharmaceutical Company Limited ("Sichuan Hengtai") and its subsidiary ("Hengtai Group") for a consideration of RMB200,000,000 (approximately HK$222,222,000). This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$112,406,000.

The relevant information about the acquisition is as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	9,671	1,987	11,658
Investments properties	40,333	–	40,333
Prepaid lease payments on land use rights	4,326	4,230	8,556
Inventories	40,377	–	40,377
Trade and other receivables	52,246	–	52,246
Value added tax recoverable	2,411	–	2,411
Pledged bank deposits	12,696	–	12,696
Bank balances and cash	33,385	–	33,385
Trade and other payables	(79,252)	–	(79,252)
Tax payable	(6,475)	–	(6,475)
Deferred tax liabilities	(4,564)	(1,555)	(6,119)
	105,154	4,662	109,816
Goodwill			112,406
Total consideration			222,222
Total consideration satisfied by:			
Cash consideration			169,669
Deposit for acquisition of a subsidiary			52,553
			222,222
Net cash outflow on acquisition			
Cash consideration paid			169,669
Less: Bank balances and cash acquired			(33,385)
			136,284

Hengtai Group contributed approximately HK$2,225,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would have been approximately HK$840,722,000 and profit for the year would have been approximately H$74,097,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

14. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	2008	2007
	HK$'000	HK$'000
Property, plant and equipment	**40,862**	35,115
Investment properties	**39,700**	–
Bank balances and cash	**4,002**	639
Prepaid lease payments on land use rights	**16,647**	9,819
	101,211	45,573

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year 2008, because of the completion on the acquisition of Sichuan Hengtai, the immediate direct effect had been benefited was significant synergies created in terms of financial performance, operation scale and corporate organization. The operation of Sichuan Hengtai had been consolidated in the reporting year, which enhancing the turnover and profits attributable to equity holders of the Company. The Group recorded a turnover of approximately HK$698 million, an increase of approximately 38% as compared to HK$507 million last year. However, due to the uncertainties of renewing import drug license of Osteoform, the Group had to provide impairment amounted to approximately of HK$38 million on its goodwill. Profit attributable to equity holders only increased by approximately 21% to approximately HK$61.1 million. At tightened budget control, gross profit margin after selling and distribution expenses of the Group reached approximately 38% against approximately 31% last year. Basic earnings per share were HK3.94 cents (2007: HK3.27 cents). The Group's financial position remained strong, with approximately HK$152 million of bank balance and cash as at 31 December 2008.

Year 2008 was a rewarding year for pharmaceutical industry in China. On general environment, demand for higher living standard and health awareness are increasing resulted from the continuous improving on individual income and education level of Chinese citizen. Rural area development and increasing population in the cities also aggregate demand on pharmaceutical products from consumers. On the one hand, the pharmaceutical industry was still suffering from the adverse impact of the price cut on pharmaceutical products, while the emergence of OTC and tertiary end user market, the merger and acquisition activities in the pharmaceutical industry, and the rising importance of research and development of pharmaceutical products within the production chain, have all presented more market opportunities.

During the year under review, the Group continues to diversify product development, expand and optimize product range, strengthen its branding strategies and accelerate the reform of quality control system in order to raise the competitiveness of our products. Although the trade mark of our flagship product "Osteoform" was being awarded as a national famous trade mark (全國馳名商標) in 2007, the Group was promoting our brand name continuously. In view of the resource reallocation process undergoing in the PRC pharmaceutical industry, the structural change of market as a result of fierce competition as well as our own development trend, the Directors consider that the Group has to take the initiatives to make changes. Accordingly, the Group further expands its business by acquiring quality downstream assets in the PRC, which is in line with our business development strategies.

The acquisition of Sichuan Hengtai had been completed in year 2008. The Group and Sichuan Hengtai have their respective niche in the upstream and downstream of the industrial chain of the pharmaceutical industry in the PRC. Given the connection of both companies' operations, the complementarity of assets and the consistency in business strategies, the acquisition may lead to the creation of a market-oriented leading pharmaceutical company. The immediate direct effect of the acquisition is the significant synergies created in terms of financial performance, operation scale and industrial organization, which in turn enhances the Company's ability to withstand risks and realizes the Group's growth potential in the long run.

Sales of Product

During the year, the Group's consolidated turnover amounted to approximately HK$698 million, an increase of approximately 38% as compared with the consolidated turnover of approximately HK$507 million for the corresponding year.

Flagship product

"Osteoform" – a compound calcium amino acid chelate capsule for the treatment of osteoporosis and calcium deficiency

Sales of our flagship product "Osteoform" increase steadily and the acquisition effect of Sichuan Hengtai, with a turnover of approximately HK$616 million for the year 2008, representing an increase of approximately 34% as compared with approximately HK$461 million for the corresponding period last year. In which, the 60-capsule package recorded a turnover of approximately HK$87 million as compared with approximately HK$54 million for the corresponding period last year, an increase of approximately 61%.

Since the introduction of "Osteoform" to the PRC market in 1997, the Group never stops its brand building process. By continuous advertising campaigns, featured academic promotion and community marketing by building up effective and interactive model with consumers, we have received general recognition and acceptance from consumers and the public and have built up the brand image of "Osteoform".

Other Product

"Legalon" (Silymarin), a drug that protecting liver

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$33.7 million, an increase of approximately 167% when compared to corresponding year.

"Depile Capsules", an oral herbal drug that relieves symptoms of haemorrhoids

At the end of year 2008, the Group has been informed by the Adverse Drug Reaction Center under the State Food and Drug Administration of the PRC, regarding the report on the case of damage to liver by the "Depile Capsules". After a systematic analysis undergone in respect to the cases under the report, the relation between the "Depile Capsules" and the case of damage to liver could not be excluded. Consequently, the manufacture, sales and use of "Depile Capsules" has been suspended, and the Group has voluntarily recalled the products from the market. Also, the Group has conducted a research on the mechanism of liver damage resulted from the "Depile Capsules" and reassessed the risks and benefits of such drug product. As a result, the Group had recognized an impairment of inventory amounted to approximately of HK$3.8 million and made provision on compensation claim amounted to approximately of HK$5.6 million at the end of year 2008. Turnover for 2008 amounted to approximately HK$4.2 million, a decrease of approximately 35% over last year.

"Opin", an interferon suppository for the treatment of chronic viral cervicitis and vaginitis

Turnover of "Opin" for 2008 amounted to approximately HK$3.3 million, an increase of approximately 43% over last year.

"Aceclofenac Tablets", a drug that relieve soft tissue pain and inflammation

"Aceclofenac Tablets" a drug that launched into the market in 2006, and contribute a sales turnover of approximately HK$2.4 million in 2008, an increase of around 14% when compare with last year.

"Clarithromycin Capsules", a new generation of broad-spectrum marolide antibiotic drug

Turnover for 2008 amounted to approximately HK$2.3 million, a decrease of approximately 8% over last year.

"Vital Fast", a slow release flu medication formulated with loratadine, psuedophedrine sulphate and paracetamol

"Vital Fast" had been granted a new drug certificate and approval for production by the State Food and Drug Administration Authority ("SFDA"), and had been launched into the market in 2006. Turnover during the year 2008 was approximately HK$5.4 million, representing a growth of approximately 86% over last year.

"Agiolax" (Plantain and Senna Granules), a drug to restore the functions of the intestines
The Group had implemented the revised market strategy and re-appoint product agent in 2008. Agiolax had re-launched into the market in year 2008. Turnover during the year 2008 was approximately HK$11.2 million.

Sichuan Hengtai
During the period under review, Sichuan Hengtai has carried out its operation by strictly following its designed strategic goals and initiatives. During the period under review, Sichuan Hengtai has continued to expand its market network and end-user services in various segment areas throughout the nation, and also strengthen the promotion via, and cooperation with commercial channels, which has helped to build up an interactive and closer working relationship with cooperative institutions such as channel businesses, retail pharmacies and hospitals, thereby creating a powerful driving force to the sale results of both old and new products.

During the year under review, Sichuan Hengtai, with its self-established local marketing team comprising hundreds of members acting as an effective promotion channel, has built up solid foundation among local communities and carried out marketing directly to the consumers, resulting not only to the provision of fast and convenient services to the general public and consumers, but also facilitating the recognition of the images of both the Company and its products among the public.

As a professional pharmaceutical marketing company, our dominance in the academic promotion and prescription drug market provides us with operating advantage. As for the prescription drug market and academic promotion, with the prescription drug department playing the leading role, Sichuan Hengtai has been continuously established academic and promotion channels in various regions and specialties in order to carry out successive academic generalizations and promotions to the medical doctors from specialties. It had also organized over ten times academic seminars at different levels.

The production base in Chengdu, Sichuan Province, the PRC
Equipped with advanced production facilities and staffed with outstanding domestic experts, the highly effective drug manufacturing plant adopts innovative technology of drug production and manufactures drugs in accordance with the GMP standards. The plant produces principally the Group's flagship product "Osteoform", "Depile Capsule", "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets" and "Aotianping" ("Miglitol Tablets") etc. A Class 4 new drug to relieve hypersensitivity called "Aoshu" ("Loratadine Tablets") had been developed and launched in the market by the Group.

The production base in Wuhan, Hubei Province, the PRC
Major production during the year under review included "Vital Fast" – a slow release flu medication and "Opin" – a gynaecology biological drug. Part of the production facilities have been upgraded in the production plant since the end of 2008 to accommodate our new health food business. The plant is expected to operate in the second half of year 2009.

Weiao (Chengdu) Pharmaceutical Co., Ltd. (維奧(成都)製藥有限公司)
The production facilities of the plant are now under maintenance and has not put into operation in year 2008. Solution for injection related products are pending for approval. The plant has not put into operation since its completion. In view of that, the Group had provided for amounted to approximately of HK$19 million impairment of plant and machineries. The excess office area will be leased out in 2009 to bring additional revenue to the Group.

The pharmaceutical factory in Hong Kong, China
The pharmaceutical factory in Hong Kong, established with GMP standards. The trial production was completed at the end of 2007 and passed the annual inspection by Hong Kong Department of Health in June 2008. Due to uncertainities of the renewal of import drug license of Osteoform, the factory has been suspended since the second half of 2008. The Group has provided impairment amounted of approximately HK$6 million on leasehold improvement, plant and machinery.

Business Prospect

The PRC medical reform scheme (中國醫療改革方案) resolved to drive the growth of pharmaceutical industry by internal demand. The industry anticipated that medical expenditure attributed to the medical insurance of urban citizens will be increased significantly in 2009. In addition, due to aging population with increasing number of senior citizens over 60 years old in the population of the PRC, it will eventually lead to an increase in medical consumption. On the other hand, with the disposable per capita income of urban citizens gradually increasing, their economic strength will support other citizens' need towards medical expenditure. Furthermore, higher living standard and education level of Chinese citizen, also drive their needs on health food and become more health conscious, which in turn broaden the entire health good market. As a result, the industry anticipated that in 2009, the pharmaceutical and health food industry will grow continuously, and it is estimated that the overall revenue of the PRC pharmaceutical industry will increase by double digit.

In the coming year, the Group will continue to expand its products portfolios, utilize the well-established national famous trademark "Osteoform" brand name to open up the health food market, optimize products categories, expand sales and distribution network, and identify acquisition opportunities which can create synergy effects for the Group's existing business, with an aim to lay a solid foundation to implement our future strategies. We will concentrate our resources on domestic sales and marketing efforts in the PRC. The Group will provide services and distribution network to foreign companies in the PRC in appropriate manner. By establishing an effective, fast and flexible marketing system to accommodate different needs of marketing solutions for different products, we will be able to deliver remarkable results to the Company and our Shareholders.

Financial Review

Capital structure

As at 31 December 2008, the Company had in issue 1,551,056,993 ordinary shares (31 December 2007: 1,551,056,993 shares). During the year 2008, the Company had not issue any new shares (2007: issued 9,350,000 new ordinary shares).

The market capitalization of the Company as at 31 December 2008 was approximately HK$256 million (31 December 2007: approximately HK$558 million).

Liquidity and financial resources

As at 31 December 2008, the Group has bank loans of approximately HK$84 million (31 December 2007: approximately HK$115 million), without long-term portion (31 December 2007: Nil), with short-term portion of approximately HK$84 million (31 December 2007: approximately HK$115 million). Bank balances and cash amounted to approximately HK$152 million (31 December 2007: approximately HK$107 million), including pledged bank deposits of approximately HK$4 million (31 December 2007: approximately HK$0.6 million).

As at 31 December 2008, the Group has obtained banking facilities of approximately HK$319 million from banks in China. Unutilised banking facilities amounted to approximately HK$235 million. The average cost of financing was around 6.5% per annum. The Group has maintained sufficient financial resources for business operation purpose. The Group has no seasonality of borrowing requirement.

The Group adopts a conservative funding and treasury policies and objectives. As at 31 December 2008, bank borrowings amounting to HK$59 million are denominated in Hong Kong dollars and amounting to HK$25 million are denominated in RMB and are fully repayable by 31 December 2009, with 88% at fixed rates of interest ranging from 5.35% to 7.84% per annum, and the rest are at floating rates of interest at Hong Kong Interbank Offered Rate plus 4.5% per annum. In relation to cash and bank balances amounting to approximately HK$152 million, approximately 87% of which was denominated in RMB, approximately 4% was denominated in Hong Kong dollar and approximately 9% was denominated in other currencies.

Exposure to foreign exchange risk and Currency policy

The sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 34% in USD, 39% in RMB and 27% in EURO. Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 87% in RMB, others are in HKD, AUD, USD and Macau Pataca, etc. For the year 2008, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose.

During the year in 2008, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations on currency exchange rates.

Contingent liabilities

As at 31 December 2008, the Group had no material contingent liabilities (2007: Nil).

Key financial figures and ratios

Profit and loss item:

In the year 2008 several profit and loss items and ratios were enhanced by a lowering proportion of selling and distribution expenses. Compared with last year, although manufacturing and production cost has risen, the Group focused on tightening its budget control and expenses, which led to the gross profit margin after selling and distribution expenses climbed up by around 7.2%, while profit attributable to equity holders of the Company to turnover ratio decreased slightly by around 1% due to the impairment of goodwill, plant and machineries.

The gross profit margin for year 2008 was approximately 64%, which is comparable for the year 2007.

The other operating income for year 2008 was approximately HK$26 million, which had been increased by around HK$8 million from year 2007 were mainly due to the increase of government grants received, gain on disposal of an available-for-sale investment, and reversal of write off of inventories.

	Year 2008	Year 2007
Profit and loss item:		
Turnover (HK$' million)	**698.2**	507.5
Gross profit margin	**64%**	64%
Selling and distribution expenses (HK$' million)	**182.6**	168.8
Gross profit margin after selling and distribution expenses	**37.9%**	30.7%
Profit attributable to equity holders/turnover	**9%**	10%
EBITDA (HK$'million)	**120.4**	100.7
EBITDA/Turnover	**17.2%**	19.8%

Balance sheet item:

Gearing ratio: Taken into account of a significant decrease of bank borrowing balances as at 2008 year end over 2007 year end, the gross debt equity ratio (total bank borrowings/equity attributable to equity holders of the Company, net of intangible assets and goodwill) was decreased to 17.2% and net debt equity ratio (total bank borrowings net of bank balances and cash/equity attributable to equity holders of the Company, net of intangible assets and goodwill) was decreased to -13.9%.

Benefited from a shorter trade receivable credit periods and lower inventory level of Sichuan Hengtai, average trade receivable turnover day was shortening to around 63 days and inventory (excluding goods in transit) average turnover day decreased to around 123 days.

	As at 31 December 2008 HK$'million	As at 31 December 2007 HK$'million
Balance sheet item:		
Short-term bank loans	**84.4**	115.1
Long-term bank loans	**–**	–
Bank balances and cash	**152.4**	107.1
Bank borrowings net of bank balances and cash	**-68.0**	8.0
Net tangible assets	**489.8**	468.9
Debt equity ratio (gross)	**17.2%**	24.5%
Debt equity ratio (net)	**-13.9%**	1.7%
Average trade receivable turnover day	**63 days**	96 days
Average inventory turnover day	**123 days**	169 days

As at 31 December 2008, the Group had approximately HK$4 million of bank balances and cash, HK$40.9 million in property, plant and equipment, HK$16.6 million in prepaid lease payments on land use rights, and HK$39.7 million in investment properties were pledged as collateral to banks.

For year 2008, return on equity was on average 10%.

Corporate Responsibilities

It is the Directors' belief that our Company should make contribution to the community and bear social responsibilities. During the year, the Group donated disaster relief material and cash to victims of earthquake in Sichuan, subsidized various community projects in the PRC, which includes teachers training program, deprived patient rehabilitation program, provide subsidies for deprived high school girls.

Employee Information

As at 31 December 2008, the Group had 1,494 employees, comprising 13 in research and development, 231 in production, 1,049 in sales and marketing, and 201 in general administration and finance. 1,469 of these employees were located in China and 25 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs for the year 2008 amounted to approximately HK$115 million.

Material Acquisition

On 6 November 2007, the Group and the shareholders of Sichuan Hengtai entered into an agreement in relation to the acquisition of the entire equity interest of Sichuan Hengtai, at a consideration of RMB200,000,000, details of which have been disclosed in the announcement dated 12 November 2007, and circular dated 30 November 2007. The acquisition was approved by the shareholders of the Company at the extraordinary general meeting on 20 December 2007. Relevant consents and approvals from the PRC government authorities had been obtained and the acquisition had been completed during the first half of year 2008.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities (2007: Nil).

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the Shareholders in the extraordinary general meeting held on 7 March 2008, the Company had changed its name from "Vital BioTech Holdings Limited 維奧生物科技控股有限公司" to "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司" to better reflect the Group's broaden investment strategies.

CORPORATE GOVERNANCE

Throughout the year 2008, the Company complied with the Code on Corporate Governance Practices ("Code on CG") as set out in Appendix 14 of the Listing Rules. Accordingly, the Company has applied the principles and complied with all code provisions and to certain extent of the recommended best practices of the Code on CG.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules, and that having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Model Code during the year 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

None of the Company and its subsidiaries redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year 2008.

AUDIT COMMITTEE

The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2008.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The 2008 annual report will be dispatched to the shareholders and available on the same websites on or before 28 April 2009.

DIVIDEND

Since the Group intends to retain sufficient capital for the business expansion, the Board would not recommend the payment of a final dividend of 2008 (2007 final dividend: Nil).

CLOSURE OF BOOK

For the purpose of determining the shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the Register of Members of the Company will be closed for a period commencing from 25 May 2009 to 1 June 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 22 May 2009.

ANNUAL GENERAL MEETING

An annual general meeting of the Company will be convened on 1 June 2009 (Monday), 11:00 a.m., a notice of the meeting will be dispatched to the shareholders on or before 28 April 2009.

The Board as at the date of this announcement comprises six executive directors: Mr. Tao Lung, Mr. Huang Jianming, Mr. Shen Songqing, Mr. Liu James Jin, Mr. Xu Xiaofan and Ms. Guo Lin, and three independent non-executive directors: Mr. Lui Tin Nang, Mr. Lee Kwong Yiu and Mr. Chong Cha Hwa.

On behalf of the Board
Vital Pharmaceutical Holdings Limited
Tao Lung
Chairman

Hong Kong, 17 April 2009